MEPP

employees pension plan

Annual Report

102-07207/

Plan Profile

MEPP is a contributory defined benefit pension plan established in 1972 for managers within the Alberta provincial public service and approved agencies, boards and commissions.

The Plan is financed by employee and employer contributions and investment earnings.

The Minister of Finance is trustee of the Plan, holds the assets of the Plan fund for the sole purpose of providing benefits to members and to meet Plan costs.

The Investment Management Division, Alberta Treasury, develops and implements market strategies and is responsible for the investment of the Plan's assets in accordance with the Plan's Statement of Investment Policies and Goals.

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MEPP

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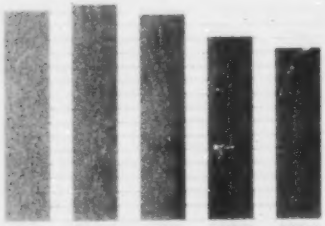
Financial Highlights

Market Value — Investments
($ millions)



Market value of assets declined by $76 million in 2001.

- For 2001, the Plan experienced a loss in investments of 4.4%, calculated on a one-year basis.
- Plan net assets at year-end were $1.48 billion, down 4.8% compared to 2000.
- Contributions made to MEPP in 2001 totaled $43.1 million, up from $39.5 million in 2000. This included $17.9 million from active members, $24.4 million from employers, and $0.8 million in transfers of funds from other plans.
- Payments from MEPP totaled $52.1 million, up from $45.5 million in 2000. Payments included $48.5 million in pension benefits, $1.2 million in refunds to members, $1.5 million transferred to other plans and $0.9 million in administration expenses.
- In 2001, MEPP's total expenses, including pooled funds managment and associated custodial fees, averaged $429 per member, compared to $368 per member in 2000. The higher costs reflect MEPP's contribution to increased Alberta Pensions Administration (APA) operating costs and financing for the APEX project (APA's new computerized pension administration system).
- Further details of the Plan's finances are presented in the 2001 Financial Statements on pages 20 - 33 and on page 42.

Average Pension Amounts Paid

	Yearly payment
2001*	$ 33,905
2000	$ 33,733
1999	$ 33,564
1998	$ 33,733
1997	$ 33,428

*Estimate

Monthly Payment Distribution - 2001

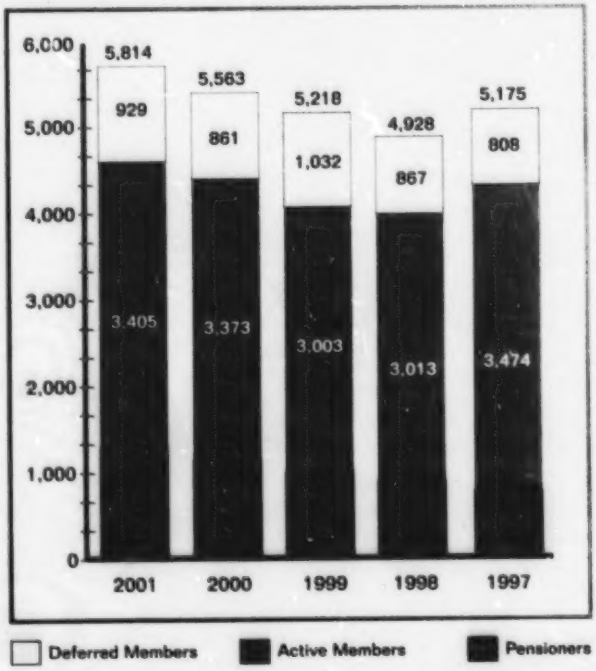
Dollar value per month	Member Pensions	Spousal Pensions	Total
1 to 999	141	7	148
1,000 to 1,999	266	17	283
2,000 to 2,999	372	13	385
3,000 to 3,999	422	2	424
4,000 and over	240	0	240
Total	**1,441**	**39**	**1,480**

Operational Highlights

The average age of active MEPP members is nearing 50.

- In 2001 the total of MEPP pensioners increased by 11% from the previous year. Deferred members increased 8% and active members increased 1%.
- The average age of active MEPP members increased from 46.7 in the mid-90's to 49 in 2001.
- 91% of new MEPP pensioners took early retirement.
- 73% of new MEPP pensioners chose a normal form of pension that includes an add-on spousal benefit. 21% chose a guaranteed-term option and 6% a single life option.

Membership Statistics



Management Employees Pension Board 2001

Back Row, left to right: Bill Lenius, Fred Barth, Lorne Saul-Demers, Nancy Bochard
Front Row: Theresa Ostrum *(Vice-Chair)*, Dianne Keefe *(Chair)*, Gail Armitage

2001 Board Members

Employee Nominees:

Gail Armitage
Bill Lenius
Theresa Ostrum

Employer Nominees:

Fred Barth
Nancy Bochard
Dianne Keefe

Public Service Commissioner Nominee:

Lorne Saul-Demers

Structure

The Management Employees Pension Board has seven members, including three employer representatives nominated by the Government of Alberta, three employee representatives, and one non-voting member nominated by the Public Service Commissioner. Board members are appointed for three-year terms. Provincial legislation requires the offices of Board Chair and Vice-Chair to alternate every two years between employer and employee nominees.

Values and Principles

Plan assets will be managed effectively and efficiently and in compliance with legislation and regulations.

All decisions made by the Board will be financially prudent, ensuring that the overall financial health of the Plan is maintained, and costs charged to the Plan are equitable according to predefined amounts identified in the APA / MEP Board Memorandum of Understanding.

The benefits and services provided by the Plan will be fair and reasonable and in the best interests of stakeholders.

The Board members embrace the "prudent person" concept to exercise good judgement on behalf of beneficiaries.

Comments from the Board

Dianne Keefe, *Chair*

The Plan's compound annualized return over eight years is 9.3%.

On behalf of the Board, I am pleased to provide an overview of the Management Employees Pension Plan (MEPP) for 2001.

The MEP Board is responsible for providing advice to the Minister of Finance in her dual roles as Plan trustee and administrator. The Board oversees the administration and investment activities of both MEPP and the Closed Management Pension Plan as part of its responsibilities. In 2001, the Board agreed to undertake a similar role in the future with respect to the Supplementary Retirement Plan for Public Service Managers (SRP).

Ensuring a strong governance structure is critical to the MEPP. The Board reviewed its structure relative to the recommendations of the 2001 Report of the Joint Committee on Corporate Governance and is continually reviewing ways to incorporate suggested best practices into its decision making processes.

In keeping with the governance review, the Board established a Communications Committee to consider recommendations for improvement. MEPP launched its first web site in October 2001 and adopted a new visual identity and logo, which are being introduced with the release of this annual report.

In 2001, major stock market indices experienced the second year-over-year decline in a decade. The Toronto Stock Exchange (TSE 300) index declined by 12.6% in 2001, while the MSCI EAFE index dropped by 16.5% and the S&P 500 by 6.4%. The Plan's total U.S. investments matched the benchmark decline of 6.4%. Given the unusually strong market returns over a protracted period of time, a market correction was inevitable.

MEPP was not immune to this worldwide market correction, with an overall loss of 4.4% on a one-year basis, failing to meet the policy benchmark return (-4.1%). On an 8-year basis, however, the Plan experienced an average gain of 9.3 %, more than meeting the actuarial return required to fund the Plan. It should be emphasized that the investment policies and goals of MEPP are set for the long-term, and some short-term volatility is expected.

During the year, the MEP Board, on the advice of its Investment Committee, reviewed and updated the Plan's Statement of Investment Policies and Goals, adding real estate and private equity investments as permissible asset classes.

There were a number of important initiatives in the administration of MEPP in 2001.

The Board negotiated and signed formal memoranda of understanding for the provision of investment and pension administration services with the Investment Management Division of Alberta Revenue (IMD) and Alberta Pensions Administration Corporation (APA) respectively. These agreements clarify service standards, identify core and non-core services, and establish performance measures for the services provided. The Board is working with APA to strengthen performance measures to focus on outcomes rather than processing times.

In early 2001, the MEP Board agreed to support the APEX project and to join other boards in funding the replacement of APA's legacy computer systems. The APEX project will bring greater functionality and dependability to the pension plans' electronic database and administration systems.

In early 2001, the MEP Board committed to support the APEX project. Implementation is expected in the Fall of 2002.

The Board asked the Plan's actuary to undertake an experience study to determine the appropriateness of the demographic assumptions used in valuing the Plan's liabilities. While most of the assumptions remain appropriate, the Board concluded that the retirement rates assumption should be adjusted in the next valuation to reflect the growing number of members taking advantage of the Plan's generous early retirement provisions.

As part of its monitoring of the health of the Plan, the Board has asked the Plan's actuary to prepare an interim valuation report as of December 31, 2001. The information will help the Board make appropriate recommendations to the Minister on the investment and administration of the Plan.

The MEP Board received a number of submissions from Plan members suggesting various benefit improvements, partly in recognition of changes in benefits adopted in the Public Service and Local Authorities pension plans. The Board concluded that, given the already generous provisions of the Plan and the demographic characteristics exerting upward pressure on costs, benefit improvements would not be prudent at this time. However, on the Board's recommendation, the Minister has approved the following Plan amendments that are not material to Plan costs:

- same-sex benefits will be allowed in recognition of recent court decisions, and
- plan members, upon retirement, will be provided with simplified pension options.

I have enjoyed serving as a Board member for six years and Chair for the last two. Effective January 1, 2002, Theresa Ostrum takes over as the new MEP Board Chair, and Nancy Bochard becomes the new Vice-Chair. As my appointment on the Board ends, I would like to thank IMD, APA and the Pension Policy Division of Alberta Finance for their contributions to the ongoing success of MEPP.

Dianne Lougheed Keefe

2001 Chair
Management Employees Pension Board

Management Discussion and Analysis

Overview

An aging active membership, a growing proportion of retirees to actives and the tendency of members to take advantage of the Plan's early retirement provisions are all demographic characteristics that exert upward pressure on the Plan's funding requirements.

Investment Philosophy

A cornerstone of the Board's investment philosophy is prudent Fund management. The nature of the Plan and its membership characteristics highlight the importance of investment returns to MEPP. Ultimately, policies are set to manage investment risk through diversification and quality constraints, enabling the Plan to withstand market fluctuations over the long-term. However, investments with the greatest growth rates, such as equities, often experience the greatest short-term volatility. A certain level of short-term volatility is the trade-off for longer-term growth prospects.

Policies are set to manage investment risk through diversification and quality constraints, enabling the Plan to withstand market fluctuations over the long-term.

The severity of the worldwide market correction led to disappointing investment returns in 2001, but the Plan's investment policies and goals are set to meet its long-term investment requirements.

Statement of Investment Policies and Goals

A key element in the financial health of the Plan is the growth of investments to fund future pension promises. Investment policies have been established and are regularly reviewed by the Board's Investment Committee to help ensure assets grow at least as fast as Plan liabilities.

With a view to meeting the long-term funding needs of the Plan by increasing investment opportunity possibilities and diversifying the Plan's equity portfolio, the Board made the following changes to its investment policy:

- overall equity policy mix was increased from 55.0% to 60.0%, effective January 1, 2001. Allocation of funds to Canadian equities remained constant, while U.S. and non-North American equities were both increased by 2.5 percentage points to 15.0%. Influencing the Board's decision was the fact that the Canadian equity market suffers from concentration (a small number of companies accounting for a large portion of the market's capitalization), a heavy focus on a few industry groups, and having just 2.0% of world stock market capitalization.

The reduction in Canadian equity and the investment in real estate will occur gradually over the course of 2002.

It is expected that this amended asset mix policy will generate on average a minimum return of 4.25% over and above inflation on a rolling four-year annualized basis.

Monitoring of investments in 2002 will be a key Board activity to assess and manage the risks to the Plan.

Asset Mix % December 31, 2001	Policy Asset Mix	Actual
Fixed Income		
Cash & Short-term	2.0%	1.9%
Long-term	33.0%	32.3%
Real Return Bonds	5.0%	4.6%
Total	40.0%	38.8%
Equities		
Canadian	25.0%	31.0%
United States	15.0%	15.5%
Non-North American	15.0%	14.7%
Real Estate	5.0%	-
Total	60.0%	61.2%

Investment Management

Performance

Although economic data had already confirmed a slowdown in Canadian and U.S. economies, the tragic events of September 11th resulted in a further collapse in equity markets.

As a result of volatility and an overall downward trend in global equity markets, the Plan's loss on investment in 2001 was $66.4 million - the first decline in the market value of the Plan's investments since 1994. In addition, pension payments exceeded contributions by $8 million - a trend that is expected to continue to restrain asset growth in the future.

The key driver was generally poor equity performance globally, as all major equity markets finished in negative territory. Poor equity performance was partially offset by strong performance in long-term fixed income markets, which finished the year with less performance due in part to unstable equity markets and substantial monetary easing. Investments did not meet the Plan's target real rate of return of 4.25% over the year.

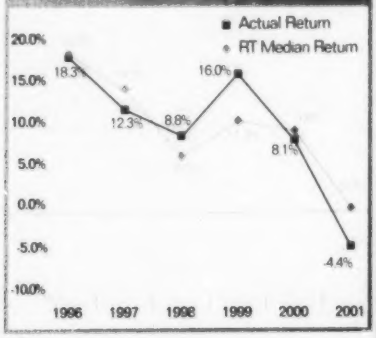
Investment Returns	Annual Returns (%)				Compound Annualized Returns (%)	
	2001	2000	1999	1998	4yr	8yr
Total Fund	**-4.4**	**8.1**	**16.0**	**8.8**	**6.9**	**9.3**
Policy Return	-4.1	7.0	13.4	11.1	6.6	9.1
Consumer Price Index	0.7	3.2	2.5	1.0	1.9	1.5
Short-term fixed income	**4.6**	**5.6**	**5.3**	**5.0**	**5.1**	**5.4**
SC 91-Day T-Bill Index	4.7	5.5	4.7	4.7	4.9	5.1
Long-term fixed income	**8.6**	**10.8**	**-1.0**	**9.3**	**6.8**	**8.2**
SC Universe Bond Index	8.1	10.2	-1.1	9.2	6.5	7.8
Real Rate of Return Bonds	**-0.4**	**16.9**	**8.1**	**6.1**	**7.5**	**n/a**
SC Real Return Bond Index	0.5	16.7	8.0	6.0	7.7	5.9
Canadian Equities	**-10.8**	**19.0**	**28.9**	**-4.0**	**7.1**	**12.2**
TSE 300 Index	-12.6	7.4	31.7	-1.6	5.0	9.4
United States Equities	**-6.4**	**-4.1**	**14.0**	**29.3**	**7.2**	**13.0**
S&P 500 Index	-6.4	-5.8	14.2	38.0	8.6	16.7
Non-North American Equities	**-16.3**	**-12.7**	**43.3**	**24.4**	**6.8**	**7.6**
MSCI EAFE Index	-16.5	-11.2	20.0	28.8	3.5	6.1

In percentage terms, the Plan lost 4.4% on its investments in 2001, failing to meet the policy benchmark return (down -4.1%). Policy benchmarks were chosen by the Board in consultation with its investment manager to measure the manager's performance.

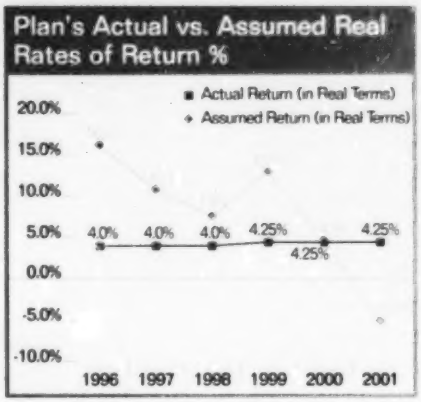
Over the year, the manager's asset allocation decisions detracted 63 basis points from MEPP investment performance. This was due in part to an underweight position in fixed income securities up to October 1, 2001. Product performance as a whole, however, added 36 basis points.

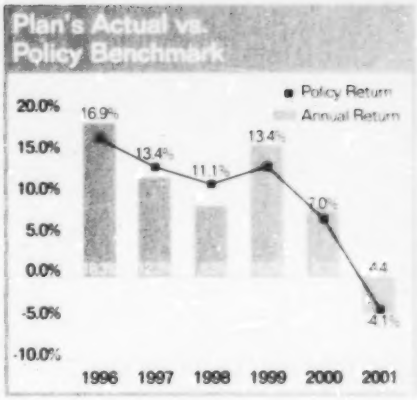
The Board engaged RT Capital to provide a comparative measurement report to its Investment Committee on a quarterly basis. The chart to the left shows a comparison of the Plan's returns versus the RT Capital Median Returns for the period 1996 to 2001.

Annual Return vs RT Median Returns



Poor equity performance was partially offset by strong performance in fixed income markets.





Fixed Income Investments

Overall, fixed income returned 7.4%, out-performing the policy benchmark return of 7.1%. Bonds and mortgages out-performed their benchmark, returning 8.6% versus 8.1% for the Scotia Capital Bond Universe. The cash and short-term holdings under-performed slightly, returning 4.6% versus a benchmark of 4.7%. Real return bonds also under-performed.

Canadian Equity Investments

The total Canadian equity return was a loss of 10.8% compared with a decline of 11.7% for the Canadian Equity Index. As of June 1, 2001, this index changed to the 100% TSE 300 Capped Index. Prior to June 1, it was a customized index of the TSE 300 and TSE 299. The full TSE 300 index strategy is intended to replicate the return of the TSE 300 market index, but in 2001 an out-performance of 50 basis points was experienced. The internally-managed core product lost 16.7%. Under-performance in this product was more than offset by the externally-managed products. The external large cap managers lost 3.2%, 940 basis points better than the TSE 300 (-12.6%). The external small cap managers out-performed the Nesbitt Burns Small Cap Index by 7.9%, with a return of 11.4%

Foreign Equity Investments

U.S. Equities

The Plan's investments in the U.S. are allocated to passive and active strategies on a roughly equal basis. A significant portion has been invested in the internally-managed derivative product to manage the Fund's exposure to foreign equity relative to the federal *Income Tax Act* limits. While these limits were successfully increased in 2000 and on January 1, 2001, the derivative structures were retained as the policy allocation to foreign equity increased. The foreign equity not managed through derivative instruments was allocated to external investment managers.

Over 2001, the S&P 500 in Canadian dollar terms lost 6.4%. The Fund's total U.S. exposure matched that of the benchmark, which also lost 6.4%. The internally-managed derivative product lost 6.7% while the U.S. active product lost 8.5%.

Top 10 Canadian Equity Holdings
December 31, 2001

Company	%
Nortel Networks	5.1%
BCE Inc.	4.3%
Royal Bank of Canada	4.3%
Toronto Dominion Bank	3.9%
Bank of Nova Scotia	3.5%
Manulife Financial Corp.	3.2%
Canadian Imperial Bank of Commerce	2.8%
Bank of Montreal	2.4%
Bombardier Inc.	2.2%
Sunlife Financial Services Inc.	2.2%

Top 10 U.S. Equity Holdings
December 31, 2001

Company	%
General Electric Co.	3.1%
Microsoft Inc.	3.0%
Citigroup Inc.	2.8%
Pfizer Inc.	2.3%
Exxon Mobil Corp.	2.3%
American International Group Inc.	1.8%
Intel Corp.	1.5%
Verizon Communications	1.5%
Wal-Mart Stores	1.5%
AOL Time Warner Inc	1.4%

Top 10 Non-North American Equity Holdings
December 31, 2001

Company	%
Vodafone Group	3.0%
Glaxosmithkline	2.4%
Total Fina Elf	1.8%
Nestle	1.4%
Aventis	1.4%
BP PLC	1.4%
ENI	1.4%
Royal Bk Scot Grp	1.3%
Nokia Corporation	1.2%
UBS AG	1.2%

Specific issues to review for the coming year are expected to be demographic trends and contribution rates.

Non-North American Equities

Non-North American equity markets were considerably weaker, with the Morgan Stanley Capital Index (MSCI) EAFE losing 16.5%. MEPP's Non-North American component out-performed by 20 basis points, losing 16.3%. This is attributable to the out-performance of the internal EAFE structured equity pool, which lost 15.3% versus the 16.5% decline in the MSCI EAFE index. The emerging markets component returned 4.4% versus its benchmark return of 3.8%.

Investment Committee Focus

Given MEPP's investment performance in 2001, the Investment Committee will keep a focus on:

- the impact of the asset mix on investment performance;
- active versus passive management;
- careful review of the Plan's investment managers;
- building a solid investment base for the long-term; and
- the results of a Cost Effectiveness Measurement (CEM) report on the Plan's investment managers.

Contribution Rates

In 2001, the Plan's actuary identified factors that make MEPP benefits more expensive than comparable plans:

1) membership is aging more rapidly than expected, with an average age of 49 years in 2001; and
2) relatively few new entrants in the Plan (particularly with the government's hiring freeze in effect from September 27, 2001 to March 31, 2002).

The Board reviewed a 2001 experience study prepared by the Plan's actuary, which recommended the retirement rates assumption be increased in the next funding valuation to reflect the recent trend to earlier retirement.

Legislation requires that an actuarial valuation for funding purposes be conducted at least once every three years. While MEPP's next valuation is not required until December 31, 2002, an interim valuation as of December 31, 2001 is being performed. This will give the Board a comprehensive view of the impact of recent investment performance and demographic experience on the funded status of the Plan.

Changes in contribution rate requirements will be assessed to determine if adjustments to contribution rates are necessary to achieve proper long-term funding of the Plan.

Specific issues to review for the coming year are expected to be demographic trends and contribution rates.

MEPP's basic benefits are...very generous.

Plan Design Changes

During the year, recommendations for cost-neutral Plan changes were made to the Minister of Finance to simplify plan provisions and comply with the federal *Income Tax Act*.

As part of its review, the Board considered requests from some members that the Plan adopt two-year vesting rather than the current five years of pensionable service. It was also proposed that members leaving the plan be eligible to receive commuted value (CV) on all service - not just on service after 1991. These changes would meet Alberta's Employment Pension Plans Act (EPPA) minimum standards for registered private sector pension plans. Members may recall that in 2000 legislative amendments enabled the Public Service Pension Plan (PSPP) and the Local Authorities Pension Plan (LAPP) to move to two-year vesting and CV on all service.

However, the Board concluded that since MEPP's basic benefits are already very generous - the full 2% on pensionable earnings, the generous early retirement provisions and a 60% COLA - two-year vesting and CV on all service for terminating members should not be considered at this time as the costs for these ancillary benefits may not be sustainable over the long-term. The Board will continue to examine these and other potential Plan improvements in future actuarial valuations.

Announcement of any changes regarding Plan simplification and compliance will be communicated through employers and posted on the MEPP Web site.

In October 2001, the first MEPP Web site was launched at www.mepp.ca ...a popular feature is the pension estimator.

MEPP Web site

In October, the first MEPP Web site was launched at www.mepp.ca. It is a focal point for providing information on benefit levels, announcing changes to the Plan and updates in investment returns. A popular feature is the pension estimator, which allows MEPP and Supplementary Retirement Plan (SRP) members to see an estimate of a future pension based on the scenario of service and salary amounts they enter. The estimator is a first effort and will evolve with added functionality as the APEX project is implemented later in 2002. The site also features an estimator to determine the cost of purchasing optional service (such as buying back approved management service).

APA's service performance to MEPP members improved during 2001.

Plan Administration

While a number of Plan changes await the new APEX system, the current computer system was adapted as required in 2001 to maintain service and implement essential changes.

APEX Project

The APEX project, which is intended to provide a new generation of computerized pension administration for APA, officially began in April 2001. IBM Canada Ltd. is the integration company and CPAS Systems Inc. is the pension software provider. At year-end, the project was on schedule and within its budget.

MEPP and the SRP are scheduled to go on-line with the new APEX system in late 2002. Employers have been contacted about the upcoming stages of the APEX project so they can be prepared for implementation.

Sierra Systems Group Inc. won the contract for the APEX Web Services portion of the project. Through the Web Services project, external stakeholders will obtain information on-line from APA, as well as conduct business transactions and dialogue with APA staff regarding pension accounts.

When the Web Services initiative is fully implemented, members will be able to estimate their future pension entitlements using their own data in a fully secure password protected environment. This will be an enhancement of the current Web site pension estimator.

In preparation for dramatic changes associated with the APEX system, transition communication and training for APA management and staff commenced in the second half of 2001.

Memoranda of Understanding

In 2001 the Board signed memoranda of understanding with both IMD and APA. These will assist in establishing an ongoing evaluation process for monitoring performance benchmarks and standards identified in the agreements.

Service Performance Measurements

APA's service performance to MEPP members improved during 2001 as a result of hiring and training new staff in the first part of the year.

The target of providing retirement options within five working days 90% of the time was met at year-end, despite 36% higher volumes than in 2000. At the end of the first quarter, 78% of member 2000 annual statements were sent to employers to distribute to members, surpassing the goal of 75%. All of the statements were distributed by the end of the second quarter 2001.

Quantitative Service Measurement (QSM) Survey

The QSM Survey provides a comparative cost summary for pension plans in Canada. The 2001 survey results indicated that APA delivered services at a cost 7% lower than the QSM average. Service standards also compared favourably with other Canadian public sector plan administrators.

To assess how well APA services are being received, annual surveys of members, retirees and employers are conducted. From the 2001 survey results, most respondents said they are very satisfied with the services provided by APA.

Communications

During the year, APA worked with the Board to adapt the communications plan to the Board's 2002 - 2004 Business Plan.

Highlights for 2001 included:

- New Supplementary Retirement Plan (SRP) member handbooks were distributed at year-end to employers to pass on to SRP members. An electronic version of the SRP member handbook is on the MEPP Web site.
- A new logo and identity program was approved by the Board and its Communications Committee. The identity program is being implemented in 2002, starting with this annual report.

New SRP member handbooks were distributed at year-end to employers to pass on to SRP members.

Governance

Mission

To provide prudent governance of the Management Employees and Closed Pension Plan Funds and cost-effective, timely services to members and retirees.

Vision

To provide secure and appropriate benefits.

Board Mandate

The Minister of Finance of the Province of Alberta is the trustee and administrator of the Management Employees Pension Plan (MEPP) and holds all of the assets of the Plan in trust for the sole purposes of providing benefits pursuant to the Plan and meeting Plan costs. The *Public Sector Pension Plans Act* sets out the main objectives of the Board with respect to funding, administration, investments and amending the Plan. A summary description of Plan provisions is in Note 1 of the Financial Statements on page 22.

The Management Employees Pension Board oversees the management of the Plan and acts in an advisory capacity to the Plan's Trustee, the Minister of Finance. The Board:

- may advise the Minister on any pension matter that is of interest to persons receiving or entitled in the future to receive benefits under the Plan;
- must be consulted before Plan rule changes can be put in place;
- arranges valuations and recommends overall contribution rates;
- sets general policy guidelines for the investment and management of the Plan's assets;
- reviews investment performance;
- sets general policy guidelines on the administration of the Plan;
- reviews administrative decisions as delegated by the Minister; and
- may advise the Minister on the Supplementary Retirement Plan for Public Service Managers (SRP) and the Public Service Management (Closed Membership) Pension Plan.

Closed Plan and Supplementary Retirement Plan

The Closed Membership Plan was established in 1994 to pay pensions for MEPP members who attained 35 years of service, retired from the previous MEPP, or ceased to participate in the previous MEPP prior to August 1, 1992.

The SRP was established in July 1999 to provide additional pension benefits to MEPP members employed by the Government of Alberta and other participating employers. The SRP provides a fully-funded 2% pension on qualifying salaries above the salary "cap" ($86,111 in 2001) established by the federal *Income Tax Act*. A more detailed description of the SRP is on page 37.

In November 2001 the MEP Board reached an agreement with the Minister of Finance to assume future advisory responsibilities for the SRP similar to those specified above for the MEPP Plan.

In keeping with good governance practices, the Board updated its Code of Conduct in early 2001.

Policies and Procedures

The Board has written policies and procedures for governance, funding, benefits, communications, investment and reporting. In keeping with good governance practices, the Board updated its Code of Conduct in early 2001 to guide the Board and Committee members in their responsibilities to Plan stakeholders.

In addition to the Member Handbook, Information Sheets and other reference material are available on the Plan's Web site at www.mepp.ca.

Investment Committee

Established by the Board in 2000, the Investment Committee's role is to:

- address investment objectives of the Plan;
- identify and assess risk tolerance;
- develop constraints and guidelines on investment, asset ranges, suitable classes of investments and voting proxies;
- select benchmarks to assist in analyzing investment performance of the Plan fund; and
- review the performance of IMD.

The Committee recommends any changes to the Board. Through third-party comparative investment performance reports from an outside service provider, investment performance is measured in relation to the median return for plans of a similar size. This gives the Investment Committee an increased capability for measuring and assessing investment performance. On the Investment Committee's recommendation, the Board also approved a third-party cost effectiveness measurement service for 2002.

Investment Committee members' adherence to the MEP Board's Code of Conduct is discussed at each meeting of the Committee.

Communications Committee

Established in early 2001, the Communications Committee is responsible for developing and reviewing the Board's communications plan on an annual basis and making recommendations to the Board.

Management Employees Pension Plan

Financial Statements

Management's Responsibility for Financial Reporting

The Management Employees Pension Plan and the Supplementary Retirement Plan for Public Service Managers financial statements and information in the 2001 Annual Report are the responsibility of the Minister of Finance. These responsibilities are undertaken on behalf of the Minister of Finance by the Investment Management Division (IMD) of Alberta Revenue and Alberta Pensions Administration Corporation (APA). The financial statements and information in the annual report have been approved by the Board.

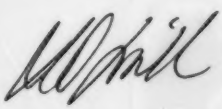
The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgements. Financial information presented in the 2001 Annual Report that relates to the operations and financial position of the Management Employees Pension Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, the Minister of Finance and APA maintain a system of internal accounting controls comprising written policies, standards and procedures, and a formal authorization structure.

These systems are designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of operations, investments, and financial statements. His examination is conducted in accordance with Canadian generally accepted auditing standards and includes tests and other procedures that allow him to report on the fairness of the financial statements prepared by management.

Peter Kruselnicki, P.Eng.
Deputy Minister of Finance



David Smith
Chief Executive Officer
Alberta Pensions Administration Corporation

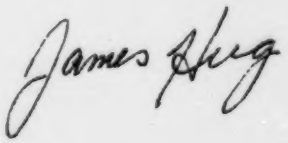
MEPP Auditor's Report

To the Minister of Finance

I have audited the statement of net assets available for benefits and accrued benefits of the Management Employees Pension Plan as at December 31, 2001 and the statements of changes in net assets available for benefits, changes in accrued benefits and changes in actuarial surplus for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2001 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.



Edmonton, Alberta
March 7, 2002

CA
Acting Auditor General

Financial Statements

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2001

($ thousands)

	2001	2000
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 1,475,297	$ 1,551,155
Accrued investment income	220	344
Contributions receivable (Note 6)	4,484	3,275
Accounts receivable	65	728
	1,480,066	1,555,502
Liabilities		
Accounts payable	25	99
Net assets available for benefits	1,480,041	1,555,403
Accrued benefits (Note 9)		
Actuarial value of accrued benefits	1,474,703	1,384,545
Actuarial surplus (Note 10)	$ 5,338	$ 170,858

See accompanying notes and schedules.

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2001

($ thousands)

	2001	2000
Increase in assets		
Contributions (Note 1(b))		
Current and optional service		
Employees	$ 17,946	$ 16,667
Employers	24,415	22,316
Transfers from other plans	781	66
Transfer from Alberta Treasury Branches	–	421
	43,142	39,470
Investment income (Note 7)	–	117,078
	43,142	156,548
Decrease in assets		
Investment loss (Note 8)	66,405	–
Pension benefits	48,476	43,160
Refunds to members	1,247	1,415
Transfers to other plans	1,464	244
Plan expenses (Note 8)	912	720
	118,504	45,539
(Decrease) Increase in net assets	(75,362)	111,009
Net assets available for benefits at beginning of year	1,555,403	1,444,394
Net assets available for benefits at end of year	$ 1,480,041	$ 1,555,403

See accompanying notes and schedules.

Statement of Changes in Accrued Benefits

For the year ended December 31, 2001

($ thousands)

	2001	2000
Increase in accrued benefits		
Interest accrued on benefits	$ 100,023	$ 94,842
Benefits earned	40,541	37,800
Transfer from Alberta Treasury Branches	–	421
	140,564	133,063
Decrease in accrued benefits		
Benefits paid and transfers	50,406	44,819
Net experience gains	–	15,374
	50,406	**60,193**
Net increase in accrued benefits	90,158	72,870
Accrued benefits at beginning of year	1,384,545	1,311,675
Accrued benefits at end of year (Note 9)	**$ 1,474,703**	**$ 1,384,545**

See accompanying notes and schedules.

Statement of Changes in Actuarial Surplus

For the year ended December 31, 2001

($ thousands)

	2001	2000
Surplus at beginning of year as originally reported	$ 104,658	$ 46,019
Effect of change in accounting policy (Note 10) – Removal of asset fluctuation reserve	66,200	86,700
Surplus at beginning of year as restated	170,858	132,719
(Decrease) Increase in net assets available for benefits	(75,362)	111,009
Net increase in accrued benefits	(90,158)	(72,870)
Surplus at end of year	**$ 5,338**	**$ 170,858**

See accompanying notes and schedules.

Notes to the Financial Statements

December 31, 2001

Note 1 Summary Description of the Plan

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 367/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992 and have not withdrawn from the Plan since that date continue as members of this Plan.

(b) Funding Policy

Current service costs are funded by employee and employer contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. There were no changes in rates in 2001. The rates in effect in 2001 were 7.75% of pensionable salary for employees and 10.75% for employers. The rates were reviewed in 2000 by the Minister of Finance and are to be reviewed again at least once every three years based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at $86,111 per year by the federal *Income Tax Act*. The maximum service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60 or age 55 and the sum of their age and service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least five years of service, a surviving spouse may choose to receive a survivor pension. For a beneficiary other than a spouse, or where service is less than five years, a lump sum payment must be chosen.

(f) Termination Benefits

Members who terminate with fewer than five years of service receive a refund of their contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a refund or a deferred pension. A refund is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. Refunds are subject to the Plan's lock-in provisions.

(g) Guarantee

The Province of Alberta guarantees payment of all benefits arising from service before 1994.

(h) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers out receive the greater of the termination benefits or commuted value for all service.

(i) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to at least 60% of the increase in the Alberta Consumer Price Index.

(j) Income Taxes

The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0570887.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Plan investments are held in pooled investment funds administered by Alberta Revenue. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

The Plan's respective percentage ownership of pooled investment funds at December 31 was as follows:

	% Ownership	
	2001	2000
Internally Managed Pooled Investment Funds		
Canadian Dollar Public Bond Pool	5.0	5.6
Canadian Pooled Equities Fund	8.4	7.2
Canadian Equity Index (excluding Nortel) Pooled Fund	–	68.0
Domestic Passive Equity Pooled Fund	7.2	0.2
EAFE Structured Equity Pooled Fund	2.3	6.4
Private Equity Pool	7.6	7.6
Private Mortgage Pool	6.0	5.8
US Passive Equity Pooled Fund	4.5	3.2
United States Pooled Equities Fund	6.3	6.3
Floating Rate Note Pool	–	0.1
Externally Managed Pooled Investment Funds		
Canadian Large Cap Equity Pool	3.4	4.7
Canadian Small Cap Equity Pool	3.8	4.9
EAFE Core Equity Pool	4.3	5.0
EAFE Passive Equity Pool	4.9	4.5
EAFE Plus Equity Pool	4.2	4.3
US Large Cap Equity Pool	4.3	5.7
US Passive Equity Pooled Fund	4.6	5.9
US Mid/Small Cap Equity Pool	4.7	5.6

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held by pooled investment funds are explained in the following paragraphs:

(i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by management.

(iii) The fair value of private equities is estimated by Alberta Revenue.

(iv) The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

(ii) Interest rate swaps are valued based on discounted cash flows using current market yields.

(iii) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

(iv) The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed

interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

Income and expense from derivative contracts are accrued as earned and included in investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

Note 3 Investments (Schedules A to D)

	2001 ($ thousands)	2001 %	2000 ($ thousands)	2000 %
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 27,737	1.9	$ 33,016	2.1
Canadian Dollar Public Bond Pool (b)	421,228	28.6	495,174	31.9
Real Rate of Return Bonds (c)	68,160	4.6	65,487	4.2
Private Mortgage Pool (d)	55,129	3.7	56,485	3.7
Floating Rate Note Pool	–	–	2,795	0.2
Total fixed income securities	572,254	38.8	652,957	42.1
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (e)	194,028	13.2	5,020	0.3
Canadian Pooled Equities Fund (f)	182,588	12.4	177,021	11.4
External Managers				
Canadian Large Cap Equity Pool (g)	59,806	4.0	56,257	3.7
Canadian Small Cap Equity Pool (g)	16,061	1.1	23,609	1.5
Private Equity Pool (h)	4,630	0.3	6,061	0.4
Canadian Equity Index (excluding Nortel) Pooled Fund	–	–	201,280	13.0
	457,113	31.0	469,248	30.3
United States Equities (Schedule C)				
External Managers				
US Large Cap Equity Pool (i)	95,511	6.5	98,286	6.3
US Passive Equity Pool (j)	65,141	4.4	66,576	4.3
US Mid/Small Cap Equity Pool (i)	15,071	1.0	14,052	0.9
US Passive Equity Pooled Fund (j)	53,734	3.6	32,201	2.1
United States Pooled Equities Fund	210	–	234	–
	229,667	15.5	211,349	13.6
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (k)	110,027	7.5	98,992	6.4
EAFE Plus Equity Pool (k)	54,254	3.7	39,312	2.5
EAFE Passive Equity Pool (l)	42,876	2.9	49,664	3.2
EAFE Structured Equity Pooled Fund (l)	9,106	0.6	29,633	1.9
	216,263	14.7	217,601	14.0
Total equities	903,043	61.2	898,198	57.9
Total investments	**$ 1,475,297**	**100.0**	**$1,551,155**	**100.0**

Note 3 Investments (Schedules A to D) (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) Real Rate of Return Bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage.

(e) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange (TSE) 300 Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the TSE 300 Index.

(f) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the TSE 300 Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

(g) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Canadian Small Cap Pool is restricted to invest in publicly traded Canadian equities with a market capitalization of up to 0.15% of the TSE 300 Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the TSE 300 Index over a four-year period. Return volatility is reduced through multiple manager investment style and unique market capitalization focus.

(h) The Private Equity Pool is in the process of orderly liquidation.

(i) The External Managers US Large Cap Equity Pool consists of multiple portfolios and the External Managers US Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Standard & Poor's (S & P) 500 Index for the US Large Cap Pool and the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period. Return volatility is reduced through multiple manager investment style and unique market capitalization focus.

(j) Each of the single portfolios of the External Managers US Passive Equity Pool and the US Passive Equity Pooled Fund consists of publicly traded United States equities similar in weights to the S & P 500 Index. The External Managers US Passive Equity Pool is passively managed by an external manager with expertise in the US equity market and the US Passive Equity Pooled Fund is managed internally. The performance objective is to provide investment returns comparable to the total return of the S & P 500 Index over a four-year period. To enhance investment returns with no substantial increase in risks, the US Passive Equity Pooled Fund also invests in futures, swaps and other structured investments.

(k) The External Managers EAFE Core and Plus Equity Pools consist of multiple portfolios of publicly traded non-North American equities. Each core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) Europe, Australia and Far East (EAFE) Index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective

Note 3 Investments (Schedules A to D) (continued)

is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period. Return volatility is reduced through multiple manager investment style and market diversification.

(i) The performance objective of the External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

Note 4 Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established a benchmark policy asset mix of 40% fixed income instruments and 60% equities. Risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

Note 5 Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Stock futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The chart at the top of page 27 is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2001:

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counterparties believed to have good standing.

All derivative contracts mature within one year except for bond index swaps, cross-currency swaps and interest rate swaps with a notional amount of $46,496,000 (2000 $71,708,000) that mature between 1 and 3 years and $35,205,000 (2000 $41,050,000) that mature over 3 years.

Derivative Contracts	2001 Notional Amount	2001 Net Fair Value (a)	2000 Notional Amount	2000 Net Fair Value (a)
	($ thousands)			
Equity index swap contracts	$ 144,256	$ 5,553	$ 91,273	$ 2,143
Bond index swap contracts	11,721	6	39,504	248
Interest rate swap contracts	41,647	(1,834)	28,084	(573)
Forward foreign exchange contracts	38,597	81	26,798	12
Equity index futures contracts	3,764	123	209	1
	239,985	$ 3,929	185,868	$ 1,831
Cross-currency interest rate swap contracts (b)	100,544		91,670	
	$ 340,529		$ 277,538	

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

(b) Cross-currency interest rate swaps are valued as a package, which includes underlying securities. As at December 31, 2001, the combined value of cross-currency interest rate swaps and underlying securities amounted to $101,151,000 (2000 $92,444,000).

Note 6 Contributions Receivable

	2001	2000
	($ thousands)	
Employees	$ 1,856	$ 1,358
Employers	2,628	1,917
	$ 4,484	$ 3,275

Note 7 Investment (Loss) Income

Investment (loss) income is comprised of the following:

	2001	2000
	($ thousands)	
Interest income	$ 39,431	$ 49,867
Dividend income	17,739	9,188
Net realized and unrealized (losses) gains on investments	(109,899)	44,529
Derivative (loss) income	(12,441)	14,586
Securities lending income	287	171
Pooled funds management and associated custodial fees	(1,522)	(1,263)
	$ (66,405)	$117,078

The following is a summary of the Plan's proportionate share of investment (loss) income by type of investments:

	2001	2000
	($ thousands)	
Deposits and Fixed Income Securities	$ 38,722	$ 70,324
Canadian Equities	(48,029)	85,007
Foreign Equities		
United States	(15,171)	(8,184)
Non-North American	(41,927)	(30,069)
	$ (66,405)	$117,078

The following is a summary of the investment performance results attained by the Plan:

	One-Year Return	Four-year Compound Annualized Return
Time-weighted rates of return		
Overall Plan	-4.4%	6.9%
Policy Benchmark	-4.1%	6.9%

Note 8 Plan Expenses

	2001	2000
	($ thousands)	
General administration costs	$ 625	$ 375
Investment management costs	226	233
Actuarial fees	61	112
	$ 912	$ 720

Note 8 Plan Expenses (continued)

General administration costs, including plan specific costs of $85,000 (2000 $38,000) and Board remuneration costs of $11,000 (2000 $nil), were paid to the Alberta Pensions Administration Corporation on a cost-recovery basis. Investment management costs were also paid to Alberta Revenue on a cost-recovery basis.

Pooled funds management and associated custodial fees totalling $1,522,000 (2000 $1,263,000) (see Note 7), which have been deducted from investment income of the pooled funds, are excluded from plan expenses.

Total expenses, including pooled funds management and associated custodial fees, amounted to $429 per member (2000 $368 per member). The $61 per member cost net increase in 2001 is attributed to the following factors: increase in pooled funds management cost $34, increase in operating cost $18, increase in business process reengineering cost $14, decrease in plan specific cost $2, and decrease in investment management cost $3.

Total expenses, including pooled funds management and associated custodial fees, amounted to 0.164% (2000: 0.127%) of assets under administration.

Note 9 Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 1999 by Aon Consulting Inc. and was then extrapolated to December 31, 2000 and 2001. The 1999 valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation and extrapolations were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Management Employees Pension Board approved this best estimate.

The major assumptions used in the actuarial extrapolations were:

	December 31 2001	2000
	Extrapolation	
	%	%
Asset real rate of return	4.25	4.25
Inflation rate	3.0	3.0
Investment rate of return	7.25	7.25
Salary escalation rate*	3.0	3.0
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0

** Excludes merit and promotion.*

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's surplus and current service cost to changes in assumptions used in actuarial extrapolations at December 31, 2001:

	Sensitivities		
	Changes in Assumptions %	Decrease in Plan Surplus ($ millions)	Increase in Current Service Cost as % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ (108)	1.3%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	(27)	0.6%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	(236)	3.7%

** The current service cost as % of pensionable earnings as determined by the December 31, 1999 valuation is 18.7%.*

Note 10 Change in Accounting Policy

Prior to 2001, in order to moderate the effect of market volatility on investment values, the Plan's actuarial value of net assets available for benefits and actuarial surplus were determined by providing for an asset fluctuation reserve against the Plan's fair value of net assets available for benefits.

For 2001, on the recommendation of the Board in consultation with the Plan's actuary, the asset fluctuation reserve was removed.

The effect of this change is that the actuarial surplus as at December 31, 2001 is decreased by $58.4 million. The actuarial surplus as at December 31, 2000 has been restated and as a result, increased by $66.2 million.

If the change had not been made, the actuarial surplus of the Plan would have been $63.7 million as at December 31, 2001 (2000 $104.7 million).

Note 11 Budget Information

The accrued benefits are based on the Management Employees Pension Board's best estimates of future events. Differences between actual results and the Board's expectations are disclosed as net experience gains and losses in the Statement of Changes in Accrued Benefits. Accordingly, a budget is not included in these financial statements.

Note 12 Comparative Figures

Comparative figures have been restated to be consistent with the 2001 presentation.

Note 13 Responsibility for Financial Statements

These financial statements were prepared by management and approved by the Management Employees Pension Board.

Schedule A
Schedule of Investments in Fixed Income Securities

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposits and short-term securities	$ 31,645	$ 41,793
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	176,892	193,118
Provincial		
Alberta, direct and guaranteed	1,473	1,663
Other, direct and guaranteed	97,768	107,593
Municipal	7,267	6,898
Corporate	145,583	180,256
Private		
Corporate	106,958	114,911
	535,941	604,439
Receivable from sale of investments and accrued investment income	5,088	6,894
Liabilities for investment purchases	(420)	(169)
	4,668	6,725
	$ 572,254	**$ 652,957**

(a) Fixed income securities held as at December 31, 2001 had an average effective market yield of 5.26% per annum (2000: 5.90% per annum). The following term structure of these securities as at December 31, 2001 is based on principal amount:

	2001	2000
	%	
under 1 year	5	6
1 to 5 years	29	33
6 to 10 years	26	25
11 to 20 years	16	14
over 20 years	24	22
	100	100

Schedule B
Schedule of Investments in Canadian Equities

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposits and short-term securities	$ 7,393	$ 2,644
Public Equities (a) (b)		
Communications and media	22,609	23,802
Conglomerates	7,118	18,185
Consumer products	22,146	23,007
Financial services	123,520	85,755
Gold and precious minerals	15,276	13,975
Industrial products	87,043	125,251
Merchandising	14,257	12,010
Metals and minerals	22,374	19,503
Oil and gas	52,327	62,053
Paper and forest products	10,519	12,028
Pipelines	10,356	10,457
Real estate and construction	3,609	4,976
Transportation and environmental services	12,607	5,625
Utilities	33,085	40,244
	436,846	456,871
Passive index	6,320	715
	443,166	457,586
Private Equities	3,238	4,296
Receivable from sale of investments and accrued investment income	6,034	5,502
Liabilities for investment purchases	(2,718)	(780)
	3,316	4,722
	$ 457,113	**$ 469,248**

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $85,743,000 (2000 $28,187,000), which were used as underlying securities to support Canadian equity index swaps contracts.

(b) The industrial classifications are those used by the Toronto Stock Exchange indices.

Schedule C
Schedule of Investments in United States Equities

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposits and short-term securities	$ 1,005	$ 89
Public Equities (a) (b)		
Basic materials	9,606	8,465
Commercial services	6,557	5,189
Consumer cyclical	16,632	12,799
Consumer non-cyclical	17,855	14,883
Consumer services	13,583	11,355
Energy	15,413	14,177
Financial	44,168	42,505
Health Care	33,564	29,406
Industrials	8,787	7,867
Technology	44,142	45,156
Telecommunications	10,865	9,558
Transport	1,275	1,876
Utilities	4,850	8,680
	227,297	211,916
Receivable from sale of investments and accrued investment income	1,830	711
Liabilities for investment purchases	(465)	(1,367)
	1,365	(656)
	$ 229,667	**$ 211,349**

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $ 52,065,000 (2000 $32,840,000), which were used as underlying securities to support US equity index swaps contracts.

(b) The industrial classifications are those used by the Standard & Poor's indices.

Schedule D
Schedule of Investments in Non-North American Equities

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposits and short-term securities	$ 5,574	$ 2,205
Public Equities (a)		
Country		
United Kingdom	52,965	46,871
Japan	35,019	46,763
France	23,914	23,262
Netherlands	15,631	14,699
Switzerland	15,200	15,921
Germany	14,572	17,822
Australia	8,049	7,062
Hong Kong	7,911	7,459
Italy	7,449	8,724
Spain	6,449	5,873
Sweden	4,032	6,807
Finland	3,849	5,322
Other	14,989	9,141
	210,029	215,726
Receivable from sale of investments and accrued investment income	2,508	1,121
Liabilities for investment purchases	(1,848)	(1,451)
	660	(330)
	$ 216,263	**$ 217,601**

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $ 8,711,000 (2000 $30,246,000), which were used as underlying securities to support Non-North American equity index swaps contracts.

Supplementary Retirement Plan for Public Service Managers

Financial Statements

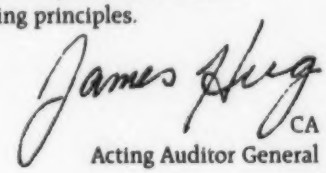
SRP Auditor's Report

To the Minister of Finance

I have audited the statement of net assets available for benefits and accrued benefits of the Supplementary Retirement Plan for Public Service Managers as at December 31, 2001 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2001 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.



CA
Acting Auditor General

Edmonton, Alberta
March 7, 2002

Financial Statements

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2001

($ thousands)

	2001	2000
Net assets available for benefits		
Assets		
Cash and cash equivalents (Note 3)	$ 1,091	$ 450
Refundable income tax	1,231	552
Contributions receivable	17	11
	2,339	1,013
Liabilities		
Income tax payable	243	44
Other payables	77	90
	320	134
	2,019	879
Due from the SRP Reserve Fund (Note 4)	6,378	2,986
Net assets available for benefits	8,397	3,865
Accrued Benefits		
Actuarial value of accrued benefits (Note 5)	8,796	3,685
Actuarial (deficiency) surplus	$ (399)	$ 180

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2001

($ thousands)

	2001	2000
Increase in assets		
Contributions		
Employees	$ 671	$ 429
Employers	671	429
Investment income	24	14
	1,366	872
Decrease in assets		
Benefits and refunds	9	–
Administration expenses (Note 6)	217	166
	226	166
	1,140	706
Increase in amounts due from the SRP Reserve Fund (Note 4)	3,392	2,218
Increase in net assets	4,532	2,924
Net assets available for benefits at beginning of year	3,865	941
Net assets available for benefits at end of year	$ 8,397	$ 3,865

The accompanying notes are part of these financial statements.

December 31, 2001

Note 1 Summary Description of the Plan

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the *Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/99 and 04/99), as amended.

(a) General

The Plan was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds $86,111, the maximum yearly pensionable earnings allowed by the federal *Income Tax Act*. The Plan is supplementary to the MEPP. Services under MEPP are used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who have attained 35 years of combined pensionable service are not eligible to participate in the Plan.

(b) Funding Policy

Current service costs are funded by employee and employer contributions which together with investment earnings, income tax refunds and transfers from the SRP Reserve Fund (see Note 4), are expected to provide for all benefits payable under the Plan. The contribution rates for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect in 2001 were unchanged at 7.75% of pensionable salary in excess of $86,111 for eligible employees and 7.75% for designated employers. The rates are to be reviewed at least once every three years by the Minister of Finance based on recommendations of the Plan's actuary.

(c) Benefits

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of $86,111 for each year of pensionable service after July 1, 1999, based on the average salary of the highest five consecutive years.

Members are entitled to an unreduced pension on service if they retire with at least five years of combined pensionable service and have either attained age 60, or age 55 and the sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

Disability, death and termination benefits and cost-of-living adjustments under this Plan follow those of MEPP.

(d) Guarantee

Designated employers guarantee payment of all benefits arising under the Plan. If assets held in the Plan are insufficient to pay for benefits as they become due, the amount due is payable by designated employers.

(e) Plan Surplus

The Government has the right to amend or discontinue the Plan in whole or in part at any time. Any assets remaining in the Plan after provision for benefits payable to or in respect of members on the complete wind-up of the Plan accrue to the Government.

(f) Income Taxes

The Plan is a Retirement Compensation Arrangement (RCA) account as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers at the rate of 50%. Refundable income tax is returned to the Plan at the same rate when pension benefits payments are made to retired plan members, or when administration expenses exceed investment income.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

(b) Valuation of Assets and Liabilities

Short-term securities included in cash and cash equivalents are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Due to uncertainties about the timing of benefits and refunds payments, it is not practicable to estimate the fair value of refundable income tax. Refundable income tax is carried at cost.

Notes to the Financial Statements

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

The fair values of other receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

Note 3 Cash and Cash Equivalents

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objectives of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. As at December 31, 2001, securities held by the Fund have an average effective market yield of 2.24% per annum (2000: 5.99% per annum) and an average duration of 80.3 days (2000: 87.6 days).

Note 4 Supplementary Retirement Plan Reserve Fund (SRP Reserve Fund)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1 (d)). To provide for their future obligations to the Plan, designated employers contribute to a Reserve Fund at rates determined by the Plan's actuary. The rate in effect in 2001 was unchanged at 42.5% of pensionable salary of eligible employees that are in excess of $86,111.

The Reserve Fund is a regulated fund established and administered by the Government to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan.

As at December 31, 2001, the Reserve Fund had assets with fair value totalling $6,378,000 (2000 $2,986,000), comprising $5,613,000 (2000 $2,786.000) in cash and cash equivalents (see Note 3) and $765,000 (2000 $200,000) in contributions receivable. Increase during the year totalling $3,392,000 (2000 $2,218,000) is attributed to contributions from employers $3,212,000 (2000 $2,139,000) and investment income $180,000 (2000 $79,000).

Note 5 Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2000 by Johnson Incorporated and was extrapolated to December 31, 2001. The valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Plan's management approved this best estimate.

The major assumptions used in the valuation were the same as those used for MEPP except the salary escalation assumption as follows:

	2001 Extrapolation %	2000 Valuation %
Asset real rate of return	4.25	4.25
Inflation rate	3.00	3.00
Investment rate of return	7.25	7.25
Salary escalation rate*	4.25	4.25
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0

** Includes merit and promotion.*

The following statement shows the principal components of the change in the value of accrued benefits:

	2001 ($ thousands)	2000 ($ thousands)
Actuarial value of accrued pension benefits at beginning of year	$ 3,685	$ 908
Interest accrued on benefits	428	66
Benefits earned	4,506	2,147
Benefits and refunds paid	(9)	–
Net experience losses and changes in actuarial assumptions	403	730
Administration expenses	(217)	(166)
Actuarial value of accrued pension benefits at end of year	**$ 8,796**	**$ 3,685**

Note 5 Accrued Benefits (continued)

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2001:

		Sensitivities	
	Changes in Assumptions %	Increase in Plan Deficiency ($ millions)	Increase in Current Service Cost as % of Pensionable Earnings in excess of $86,111
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	0.7	3.5%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	1.4	6.9%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant*	(1.0%)	1.1	5.5%

* *Sensitivities includes investment return on assets held by the SRP Reserve Fund (Note 4).*

Note 6 Administration Expenses

Administration costs were paid to the Alberta Pensions Administration Corporation on a cost-recovery basis. Total administration costs of $217,000 (2000 $166,000) amounted to $389 (2000 $350) per member.

Note 7 Budget Information

The accrued benefits are based on management's best estimates of future events. Differences, if any, between actual results and management's expectations are disclosed as net experience gains and losses in Note 5(a). Accordingly, a budget is not included in these financial statements.

Note 8 Responsibility for Financial Statements

These financial statements were prepared by management and approved by the Management Employees Pension Board.

Glossary

Terms

Active Management Strategies

These strategies have two forms — security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the TSE 300 Index for Canadian stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

Active Member

A member who is making contributions or, if not making contributions, is on non-contributory leave for up to three years, on approved disability leave, or at the point of maximum pensionable service (35 years).

Asset Mix

The percentage of a plan's assets allocated to the major asset classes (for example, 45% fixed income and 55% equities).

Basis Point

A measurement of fluctuation in the current yield equal to 1/100 of 1%.

Benchmark

A standard against which others are measured. For the purposes of this report, benchmarks are established income indices (listed in percentages) used to measure the health of the Fund's investment returns.

Bond

A promissory note issued by a company or government, which bears a fixed maturity date and rate of return.

Combined Pensionable Service

Pensionable service in both MEPP and in the Public Service Pension Plan is combined to determine the member's vesting status or benefits when retiring or leaving the Plan.

Deferred Member

A member who is no longer employed by a Plan employer, has left his/her contributions in the Plan and has yet to choose a pension option.

Emerging Markets

An economy in the earlier stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. Examples include China, Greece and Brazil.

Equity

Stock; the ownership interest in a company.

External Manager

A third-party firm contracted to provide investment management services.

Guaranteed Terms – Pension Option

A guaranteed pension is paid for the member's lifetime. If the member dies before the end of the guaranteed period, payments will continue to the designated beneficiary(ies) or estate for the rest of that period.

Joint Life – Pension Option

Pension is payable for the joint lives of the member and the member's nominee (usually the spouse). Upon the death of the member or the nominee, payments continue to the survivor for his or her life. Payments to the survivor may be lower than the original payment, depending on the member's choice at retirement.

Large Cap

Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

Manager Structure

Manager structure refers to the number and mandates given to a plan's investment managers. Manager structures can be built around balanced fund mandates where the manager invests across multiple asset classes (Canadian stocks, Canadian bonds, U.S. and International stocks) or specialty mandates where the manager invests in a single asset class. In the case of a specialty mandate the focus can be very specific such as investing in only Canadian small capitalized companies.

Money Market Securities

Fixed income securities that mature in less than one year. Also known as "cash equivalents" since their marketability and characteristics provide easy liquidity access to ready cash, as needed.

Normal – Pension Option

Pension is paid for member's lifetime. If the member dies before the member's spouse, a reduced pension is paid to the spouse for as long as he or she lives.

Passive Equity

Equity bought as Toronto Index Participation Units (TIPS), allowing a fund to buy into the top 35 companies on the Toronto Stock Exchange.

Passive Strategies

These strategies involve investing to replicate the performance of a given market index such as the TSE 300 for Canadian stocks or managing asset class exposure to match the performance of an established policy asset mix such as 50% TSE 300 Index and 50% Scotia Capital Markets Bond Universe Index.

Pensioner

A member, surviving spouse or beneficiary who is receiving a pension from the Plan.

Policy Asset Mix

The distribution of funds among various types of assets broadly grouped into fixed income and equity related instruments that are specified in the Board's investment policy and offer the highest probability of consistently achieving investment objectives within the confines of a predetermined level of risk.

Policy Benchmark

A performance measure for the Fund, which is composed from the long-term asset mix policy and the benchmark indices for each major asset class.

Product
An investment vehicle, such as bonds, cash, money market securities, equities (both domestic and foreign), pooled funds, index funds, etc., offered by an investment manager for the purpose of investing funds to achieve investment goals set out in an investment policy.

Public Service Management (Closed Membership) Plan
This plan, established in Schedule 6 of the Public Sector Pension Plans Act, Chapter P-41, RSA 2000, provides retirement benefits for those persons who were members of the Public Service Management Pension Plan prior to 1994 and were retired or eligible to receive a pension from that Plan as at August 1, 1992.

Real Rate of Return
The real rate of return is the return achieved by an asset after adjustments for inflation.

Real Return Bond
A fixed income investment product (a bond) whose return is linked to the real interest rate to generate a specified real rate of return. Related terms: The real interest rate is the nominal (set) interest rate minus inflation. The real rate of return is the return achieved by an asset after adjustments for inflation.

Single Life – Pension Option
Pension is paid for member's lifetime but no payments are made to a beneficiary or estate after the pensioner's death. This option is only available when there is no spouse or the spouse waived rights.

Small Cap
Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

Statement of Investment Policies and Goals
A policy document set by the Board to establish the asset mix of the Fund, the manner by which the Investment Management Division of Alberta Revenue may invest assets and the specific holding limits for each type of security.

Swap (structured investments)
A contract between two parties to pay the other party the return on an underlying investment.

T-Bill
Short-term government security.

Time-weighted Return
A series of dollar-weighted rates of return designed to reduce the impact of the cashflows on a fund's performance. Since the fund manager usually has little control over the timing of the cashflows, the time-weighted return is used to measure the performance of the fund managers.

Total Return
Measures income (dividend, cash, interest and accrued interest) and capital appreciation (or capital depreciation).

Unfunded Liability
An unfunded liability exists when the actuarial valuation determines that the Fund's accrued liabilities exceed the net assets available for the payment of benefits.

Indices

Consumer Price Index (CPI)
Measures the relative prices at various times of a selected group of goods and services which typify those bought by urban families.

Morgan Stanley Capital International World Index
Measures the total return attributable to the largest capitalized companies on the world's major stock exchanges. Maintained by Morgan Stanley, the index is compiled and reported monthly in local and common currencies.

RT Capital Median Manager
A reference point for measuring Investment Management Division's performance. RT Capital Financial Service Limited conducts surveys of balanced fund managers on a quarterly basis to create the RT Capital Universe. From this, RT Capital Canada determines the median (or middle-ranked) manager. Related Terms: RT Capital (Canada) Financial Services Limited is an independent firm that evaluates and reports on investment performance. A balanced fund is an investment portfolio with a mix of bonds, preferred stocks and common stocks designed to conserve the investor's initial principal, pay current income and achieve long-term growth.

Scotia Capital Markets Universe Bond Index
Measures the total return attributable to bonds. Maintained by ScotiaMcLeod and includes representative bond issues by issuer (Federal, Provincial, Municipal and Corporate) by quality (AAA, AA, A, and BBB) and term (short-, mid-, and long-).

Scotia Capital Markets 91-Day T-Bill Index
Measures the total return attributable to 91-Day T-Bills. Maintained by ScotiaMcLeod.

Standard & Poor's 500 Index
Measures the total return attributable to the 500 largest capitalized companies on U.S. stock exchanges.

TSE 300 Index
Measures the total return attributable to the 300 largest capitalized companies traded on the Toronto Stock Exchange. Maintained by the Toronto Stock Exchange, the index is compiled and reported on a daily basis. The index's composition is adjusted annually.

Seven-Year Plan Summary

as at December 31, 2001

	2001	2000	1999	1998	1997	1996	1995
				($ thousands)			
Change in net assets							
Income							
Investment income (loss)	$ (66,405)	$ 117,078	$ 206,210	$ 105,296	$ 132,257	$ 164,541	$ 131,520
Contributions							
Employees	17,946	16,667	13,681	15,175	14,116	14,107	13,840
Employers	24,415	22,316	15,777	17,000	15,321	15,519	16,810
Unfunded liability							
Employees	–	–	1,475	1,571	1,436	1,276	1,186
Employers	–	–	5,403	5,762	5,267	5,905	5,148
Transfers from other plans	781	66	1	34	24	273	753
Total Income	**(23,263)**	**156,127**	**242,547**	**144,838**	**168,421**	**201,621**	**169,257**
Expenditures							
Benefits paid	48,476	43,160	38,232	33,483	27,820	21,561	16,327
Refunds to members	1,247	1,415	1,554	2,651	2,680	1,935	1,968
Investment expenses	226	233	215	219	164	179	169
Transfers to Alberta Treasury Branches	–	(421)	–	–	–	–	–
Transfers to (from) other plans	1,464	244	66,279	–	83	462	952
Administration expenses	686	487	581	440	414	315	372
Total expenditures	**52,099**	**45,118**	**106,861**	**36,793**	**31,161**	**24,452**	**19,788**
Increase (decrease) in net assets	**(75,362)**	**111,009**	**135,686**	**108,045**	**137,260**	**177,169**	**149,469**
Net Assets							
Investments							
Deposits in CCITF*	27,737	33,016	3,335	4,043	12,449	19,871	54,862
Fixed income securities	544,517	619,941	569,897	597,605	563,226	473,026	405,690
Equities – Canadian	457,113	469,248	494,928	365,032	354,951	322,071	207,025
Non-Canadian	445,930	428,950	378,355	309,543	239,351	225,235	189,504
Real estate	–	–	–	29,629	27,889	20,207	18,521
Balanced funds	–	–	–	–	–	–	9,619
Total Investments	**1,475,297**	**1,551,155**	**1,446,515**	**1,305,852**	**1,197,866**	**1,060,410**	**885,221**
Investment receivables	220	344	281	213	396	384	993
Contribution and other receivables	4,549	4,003	2,953	3,112	2,579	2,889	608
Total Assets	**1,480,066**	**1,555,502**	**1,449,749**	**1,309,177**	**1,200,841**	**1,063,683**	**886,822**
Total Liabilities	(25)	(99)	(5,355)	(469)	(178)	(280)	(588)
Net Assets available for benefits	**1,480,041**	**1,555,403**	**1,444,394**	**1,308,708**	**1,200,663**	**1,063,403**	**886,234**
Actuarial value of accrued benefits	(1,474,703)	1,384,545	1,311,675	1,250,853	1,165,653	1,065,853	960,753
Surplus (Deficiency)	5,338	170,858	46,019	4,355	(6,490)	(86,550)	(116,616)
Funded Ratio (%)	100	108	104	100	99	92	88
Performance (%)							
Long-term goal	7.25	7.25	7.25	7.50	7.50	7.50	8.00
Rate of return – nominal	(4.4)	8.2	16.0	8.8	12.3	18.3	17.7
Benchmark	(4.1)	7.0	13.4	11.2	13.4	17.0	17.3
Consumer Price Index	0.7	3.2	2.5	1.0	1.6	1.6	0.2
Real rate of return	(5.1)	5.0	13.5	7.8	10.7	16.7	17.5
Interest Rates (%)							
Bank of Canada	2.5	6.0	5.0	5.3	4.5	3.3	5.8
U.S. Federal Reserve	1.25	6.5	5.5	4.5	5.5	5.2	5.5
Stock Market Indices (%)							
TSE 300 ($ Cdn)	(12.6)	7.4	31.7	(1.6)	15	28.4	14.6
Dow Jones Industrial Index ($ U.S.)	(5.4)	(4.7)	27.0	18.0	24.8	28.6	36.5
S & P 500 ($ U.S.)	(6.4)	(5.8)	14.2	38.0	39.2	23.6	33.9
NASDAQ ($ U.S.)	(20.8)	(39.1)	85.9	40.1	22.1	23.0	40.9
Participants - MEPP							
Active members	3,405	3,373	3,003	3,013	3,474	3,500	3,696
Deferred members	929	861	1,032	867	808	729	575
Retirees	1,480	1,329	1,183	1,048	893	718	549
Total	**5,814**	**5,563**	**5,218**	**4,928**	**5,175**	**4,947**	**4,820**
Active members - SRP	635	477	292	-	-	-	-
Average age of active members (years)	49.0	47.8	48.1	48.2**	46.9	46.8	46.7
Contribution Rates (%)							
Employees	7.75	7.75	7.00	7.00	7.00	7.00	6.53
Employers	10.75	10.75	8.00	8.00	8.00	8.00	8.00
Unfunded liability	–	–	3.50	3.50	3.50	3.50	3.34

**Consolidated Cash Investment Trust Fund*

***Active members other than those with Alberta Treasury Branches.*

Corporate Directory 2002

MEP Board Members 2002

Employee Nominees:
Gail Armitage
Bill Lenius
Theresa Ostrum, Chair

Employer Nominees:
Fred Barth
Nancy Bochard, Vice-Chair
vacancy

Public Service Commissioner Nominee (non-voting):
Lorne Saul-Demers

Board Committees

Investment Committee:
Fred Barth
Nancy Bochard
Ladis Vegh
Tania Willumsen

Communications Committee:
Gail Armitage
Bill Lenius
Lorne Saul-Demers

Administrator:
Alberta Pensions Administration Corporation

Acting Board Secretary:
Jim Millard

Fund Management:
Investment Management Division
Alberta Revenue

Actuary:
Aon Consulting Inc.

Auditor:
Auditor General of Alberta

MEPP

Contact Information

Management Employees Pension Board